ORDER NO. 4696

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners: Robert G. Taub, Chairman;
                                          Tony Hammond, Vice Chairman;
                                          Mark Acton; and
                                          Nanci E. Langley

Periodic Reporting   Docket No. RM2018-10
(Proposal Seven)

NOTICE OF PROPOSED RULEMAKING ON ANALYTICAL PRINCIPLES
USED IN PERIODIC REPORTING (PROPOSAL SEVEN)

(Issued July 5, 2018)

I.   INTRODUCTION

On June 29, 2018, the Postal Service filed a petition pursuant to 39 CFR 3050.11 requesting that the Commission initiate a rulemaking proceeding to consider changes to analytical principles relating to periodic reports.[1] The Petition identifies the proposed analytical changes filed in this docket as Proposal Seven.

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[1] Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Seven), June 29, 2018 (Petition).

II.   PROPOSAL SEVEN

Background. The Proposal Seven objective is to "reorganize Cost Segment 3 and certain mail processing cost pools to reflect operational changes and to better classify clerk and mail handler work activities." Petition at 1.

Since its inception, the current Cost Segment 3 methodology has divided clerk and mail handler costs into costs incurred at "MODS" offices, NDCs and "non-MODS" facilities. Petition, Proposal Seven at 1. Within each office group, the Cost Segment 3 model divides mail processing activities into activity-based cost pools*. Id.* The cost pools allow for distinct causal assignments of volume-variable costs to products for activities with distinct product mixes and/or distinct roles in the mail processing system. *Id.* The Postal Service states "[i]mprovements to the non-MODS cost methodology introduced activity-based mail processing cost pools which currently offer finer activity detail than the corresponding MODS cost pools*." Id*. at 2. The Postal Service notes:

> The primary operational distinction is between "Function 1" mail processing (*i.e.* mail processing at plants) and "Function 4" activities (processing, window service, and other activities at customer service facilities including post offices, stations, and branches) and that [a] significant aim of this proposal is to align the Cost Segment 3 office groups with this operational distinction, and to provide a common set of cost pools for reporting Function 4 costs based on the non-MODS cost pools.

Id.

The Postal Service states "[m]ail processing cost pools also require periodic revision to maintain consistency with Postal Service operations. This proposal includes several mail processing cost pool changes intended to improve the treatment of certain new equipment, as well as to prepare for the eventual withdrawal of other equipment from service." *Id.* at 2-3.

Proposal. The Postal Service proposes the following actions to reorganize MODS and non-MODS office groups for the Cost Segment 3 model, and to revise certain mail processing cost pools for MODS plant and NDCs (formerly BMCs):

1.	Redefine the "MODS" office group to include only MODS-reporting plants, with other offices assigned to the non-MODS group. (footnote omitted)

2.	Consolidate LDC 15 LCREM operations (currently in cost pool LD15PLNT) into the D/BCS cost pool.

3.	Consolidate the FSM/1000 cost pool into the AFSM100 cost pool.

4.	Consolidate the 1FLATPRP cost pool (MODS operation 035) into the AFSM100 cost pool.

5.	Collect operations for the Low-Cost Universal Sorter (LCUS) and Sack Sorting Machine in new LCUS-SSM cost pools for MODS offices and NDCs, supplanting the current MODS 1SACKS_M cost pool as well as the NDC SSM cost pool.

6.	Eliminate the current plant MECPARC and NDC NMO cost pools.

7.	Reorganize the APBSPRIO and APBS OTH cost pools such that the former includes all applicable parcel (TPH) operations, limiting the latter to bundle (NATPH) operations.

8.	Move NDC LDC 14 manual Priority Mail distribution operations from the OTHR cost pool to the MANP cost pool. (footnote omitted)

9.	Employ non-MODS methodology to assign all Function 4 costs to cost pools, including costs pools currently in the MODS office group. (footnote omitted)

10.	Realign facility space categories and distribution keys in conjunction with labor cost changes.

Id. at 3-4.

Rationale and impact: The Postal Service lists separately the rationale for each revision in Proposal Seven as follows:

1. Redefine the "MODS" office group to include only MODS-reporting plants, with other offices assigned to non-MODS group. Redefinition will "make it easier to analyze mail processing costs at post offices, stations, and branches under a common set of cost pools. The offices that are proposed to shift to the non-MODS group, [are] nearly all of the mail processing costs which are in "Function 4" (LDC41-49) cost pools." *Id.* at 5. This will provide a more consistent treatment of Function 4 costs. "Currently, costs for otherwise similar activities—particularly manual mail processing at customer service facilities—may be treated differently depending on whether they occur at a MODS or non-MODS finance number." *Id.* at 6.

2. Consolidate LDC15LCREM operations in cost pool LD15PLNT into the D/BCS cost pool. The Low-Cost Reject Encoding Machine (LCREM) cost pool is assigned to a small cost pool and will be included with other LCREM operations already included in LDC 11, currently part of the much larger D/BCS cost pool. *Id.* at 6.

3. Consolidate FSM/1000 into AFSM 100 cost pool. This is to provide for the phase-out of remaining operations for UFSM 1000 equipment. Continuing decline is expected and the activity in FSM/1000 cost pools no longer has a material effect on mail processing costs. *Id.* at 6-7.

4. Consolidate the 1FLATPRP cost pool (MODS operation 035) into the AFSM100 cost pool. This is to harmonize treatment of 1FLATPRP (MODS operation 035) with other flat preparation operations in the Cost Segment 3.1 model. The declining scale of remaining FSM/10000 operations no longer justifies separate treatment of 1FLATPRP. *Id.* at 7.

5. <u>Collect operations for the low-Cost Universal Sorter (LCUS) and Sack sorting</u>
    <u>Machine in new LCUS-SSM cost pools for MODS offices and NDCs, supplanting</u>
    <u>the current MODS 1SACKS_M cost pool as well as the NDC SSM cost pool.</u>
    Consolidation should limit the potential impact of clocking errors within LCUS
    operations and also facilitate computation of operation-specific piggyback costs.
    Id. at 8.

6. <u>Eliminate the current plant MECPARC and NDC NMO cost pools.</u> "[T]here are
    no other valid plant operations remaining in the MECPARC cost pool after the
    universal sorter operations have been gathered into the new LCUS-SSM cost
    pool." New automated parcel equipment would be assigned to the APBSPRIO
    cost pool. Therefore, "there will be no valid workhours for the NDC NMO cost
    pool going forward." *Id.* at 9.

7. <u>Reorganize the APBSPRIO and APBS OTH cost pools.</u> Moving minor parcel
    operations with a small number of workhours from APBS OTH to APBSPRIO will
    be consistent with the treatment of other parcel operations and reinforce the
    conceptual definition of APBS as the automated bundle sorting cost pool. *Id.*

8. <u>Move NDC LDC 14 manual Priority Mail distribution operations from the OTHR</u>
    <u>cost pool to the MANP cost pool</u>. "[T]reating these operations as part of the
    MANP distribution cost pool will reduce the possibility that mixed-mail costs will
    be distributed to non-parcels and/or parcel products that receive automated
    processing." *Id.* at 10.

9. <u>Employ non-MODS methodology to assign all Function 4 costs to cost pools,</u>
    <u>including cost pools currently in the MODS office group</u>. This will simplify report
    of Function 4 costs that are currently spread across cost pools in the two office
    groups defined similarly and reduce cases where costs from similar activities
    may be treated differently based on their office group. *Id.* at 10. "[T]he larger
    effective sample sizes from combining MODS Function 4 tallies with non-MODS

should result in little or no adverse effect on the coefficients of variation (CVs) for the sample-based cost estimates." *Id.* at 11.

10. <u>Realign facility space categories and distribution keys in conjunction with labor cost changes.</u> "[U]nder the proposed methodology, labor cost pool consolidations would require corresponding consolidations of associated facility space distribution keys and associated space costs (and square footage)." *Id.*

The Postal Service's estimate of the effect on product costs is presented in Table 1 in the Excel file attached to the Petition. The Postal Service states "[t]he Cost Segment 3 impact includes the effects of the proposal on the Mail Processing, Window Service, and Administrative components[,]" as well as "revisions to distribution keys for piggybacked costs[,]" which "may variously reinforce or offset the direct impact on Cost Segment 3 labor costs." The impact is small in most cases. *Id.* at 12.

III. NOTICE AND COMMENT

The Commission establishes Docket No. RM2018-10 for consideration of matters raised by the Petition. More information on the Petition may be accessed via the Commission's website at *http://www.prc.gov.* Interested persons may submit comments on the Petition and Proposal Seven no later than September 5, 2018. Pursuant to 39 U.S.C. 505, Lawrence Fenster is designated as an officer of the Commission (Public Representative) to represent the interests of the general public in this proceeding.

IV. ORDERING PARAGRAPHS

It is ordered:

1. The Commission establishes Docket No. RM2018-10 for consideration of the matters raised by the Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Seven), filed June 29, 2018.

2.   Comments by interested persons in this proceeding are due no later than September 5, 2018.

3.   Pursuant to 39 U.S.C. 505, the Commission appoints Lawrence Fenster to serve as an officer of the Commission (Public Representative) to represent the interests of the general public in this docket.

4.   The Secretary shall arrange for publication of this Order in the *Federal Register*.

By the Commission.

Ruth Ann Abrams
Acting Secretary